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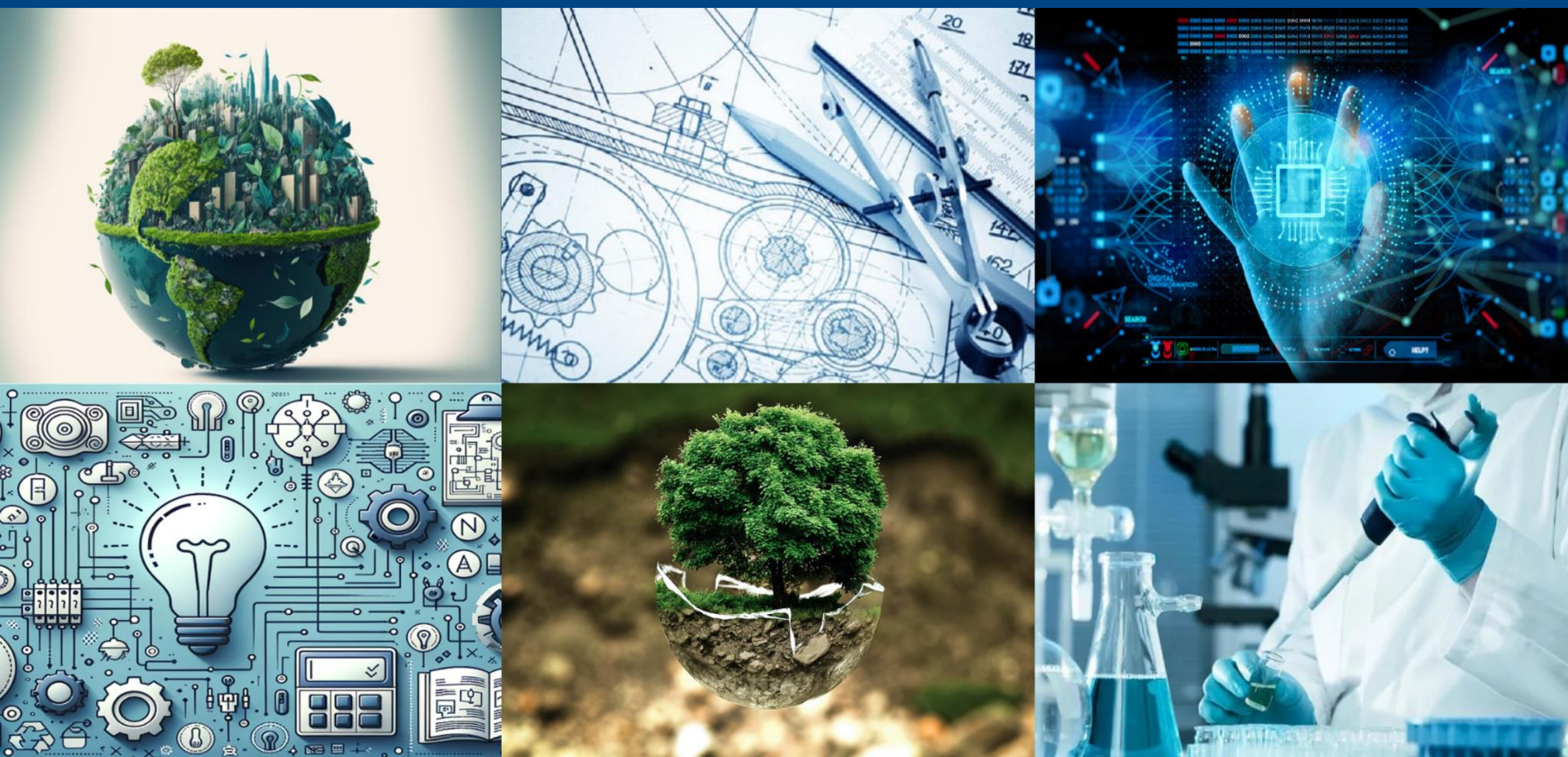

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A Comparative Analysis of India's New and Old Tax Regimes: Implications for Taxpayers and Economic Equity

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ABSTRACT: Taxation is an important aspect of economic policy, influencing individual financial choices and national revenue generation. India's tax structure was revolutionized by the implementation of a new tax regime, which eliminates the complexity of tax rates but eliminates the majority of deductions. The change in policy offers taxpayers a choice between taking up the new regime or staying in the old system, which maintains deductions but is more intricate. This paper makes a comparative evaluation of both tax regimes, examining their structure, effect on various income groups, and overall economic effects. Through scenario-based simulations, the research estimates differences in tax liability and potential gains for taxpayers. The results indicate that although the new tax regime simplifies compliance, the old regime is still more desirable for those who effectively use deductions. These insights can assist policymakers in refining tax structures for greater equity and efficiency.

KEYWORDS: Tax Regime Comparison, Income Tax, Fiscal Policy, Economic Equity, Taxpayer Behavior, Financial Planning, Taxation in India.

I. INTRODUCTION

India's taxation framework has undergone a significant transformation with the introduction of an alternative tax regime. This reform aims to simplify the tax structure while offering individuals the flexibility to choose a system that best aligns with their financial goals. Historically, the Indian taxation system has motivated savings and investment by permitting individuals to claim multiple deductions and exemptions. These schemes, including tax deductions under Section 80C, house rent allowance (HRA), and normal deductions, have been fundamental in promoting long-term financial planning and wealth-building. Nevertheless, the intricacies of dealing with multiple exemptions routinely made tax payment inconvenient.

To counter this problem, the government launched an alternative tax regime with lower tax rates but with few deductions. In this system, taxpayers give up usual exemptions in return for a simplified tax calculation process. This change makes tax filing easier and lightens administrative loads, but could change financial behaviour, especially in terms of savings, investments, and insurance.

This research seeks to give an in-depth analysis of the two tax regimes, evaluating their benefits and drawbacks for various income groups. It analyzes how people in different financial levels react to the option between the two regimes and considers whether the reforms enhance economic fairness. For example, individuals with higher incomes who depend on large tax-saving investments might prefer the old regime, while those with lower financial obligations might like the new regime's reduced rates.

In addition, the paper delves into the larger economic ramifications of these tax policies, examining if they stimulate consumer consumption, financial prudence, or term savings. Through an examination of their effectiveness, equity, and effects on taxpayer response, this research offers insights into the changing picture of India's tax landscape and how it influences financial decision-making at the individual and national scales.

II. REVIEW OF LITERATURE

1. Kumar (2021) Kumar's study examines the adaptation of taxpayers to the new tax system, especially in the absence of tax-saving allowances. Most people, who were used to investing in tax-saving schemes such as Public Provident Fund (PPF), Equity-Linked Savings Schemes (ELSS), and insurance plans, now fail to make effective financial arrangements. The research indicates that the removal of exemptions has deterred long-term saving, diverting attention towards greater short-term spending. Although some taxpayers enjoy the streamlined structure, others are disadvantaged by the lack of familiar tax relief, resulting in a substantial behavioural change in financial planning.

2. Bharti (2021) Bharti's research analyzes the impact of the new tax regime on tax compliance and administrative efficiency. The results show that tax filing has been simplified for people with simple incomes, as they no longer have to deal with multiple deductions or keep large financial records. But taxpayers who had previously minimized their tax payments through different exemptions now pay more tax under the new system. Although the streamlined process minimizes errors and processing time, it might not be cost-effective for all taxpayers.

3. Gupta (2022) Gupta's study examines the role of financial awareness in determining whether to opt for the old or new tax system. The research discovers that taxpayers with greater financial literacy prefer the old system because they are able to use deductions to minimize their taxable income. Taxpayers with low knowledge of tax-saving mechanisms, on the other hand, choose the new system because it is simple. The study emphasizes the role of financial literacy in enabling individuals to make appropriate choices that align with their long-term financial aspirations.

4. Sharma (2022) Sharma's research contrasts India's taxation system with global trends, comparing how various countries strike a balance between tax simplification and tax incentives for savings and investment. The observations indicate that although most countries implement simplified tax systems, they tend to maintain selective deductions for promoting long-term financial stability. The United States and the United Kingdom, for instance, offer tax incentives for savings for retirement and medical treatment, but these are not offered by India's recent tax system. The research implies that the removal of all exemptions would deter taxpayers from being financially disciplined.

5. Radhakrishnan (2023) Radhakrishnan's work examines the budgetary consequences of reducing tax rates in the new regime. The study cautions that the drop in tax receipts could generate fiscal imbalances that need to be addressed in other areas like indirect taxes or government spending. The study points out that though simplification of tax enhances compliance, policymakers need to take care not to compromise the nation's revenue stream. Efficient taxation calls for a trade-off between ease of compliance and the need for sufficient government revenue.

6. Sitharaman (2023) The Union Budget 2025 introduced major tax policy reforms, which Sitharaman's study analyses in detail. One of the key measures was increasing the tax-free income threshold, which aimed to boost disposable income and stimulate economic activity. The research points out that although this reform is advantageous to taxpayers in the short run as it boosts expenditure power, it may lead to a large loss of revenue estimated at ₹1 trillion every year. The results indicate that while the new system improves liquidity, its sustainability over the long term relies on economic growth and prudent fiscal management.

7. World Bank (2023) The World Bank study assesses the implications of lowering direct tax rates but keeping or raising indirect taxes. The research proposes that lower direct taxation increases disposable income, which in turn increases spending and investment. It cautions, though, that a higher use of indirect taxation, like GST, may have a disproportionate impact on poor people. Because indirect taxes are levied equally on all consumers irrespective of income, they can further burden economically weaker sections. The study demands balanced taxation to achieve financial equality.

8. World Bank (2023) Verma and Singh analyze whether the alternative tax structure offers equitable benefits across income classes. Their research unveils that although high-income earners reap most benefit from the reduced tax levels, middle-income tax payers end up paying more since they lose their exemptions. This leads one to question whether the new system of taxation indeed lightens the burden for everyone or mostly favors certain income levels. The study prescribes that the system may have to be streamlined further to become more inclusive.

9. Mehta (2023) Mehta examines how the new tax regime boosts disposable income by reducing tax rates and doing away with deductions. This results in short-term consumption expenditure as individuals have increased cash available for immediate consumption. Yet, the research cautions that long-term financial stability could be undermined since decreased deductions discourage saving, such as provident funds or insurance.

10. Das & Mehta (2024) Das and Mehta examine taxpayer preferences in India's dual-tax environment. Younger taxpayers prefer the new regime for its simplicity and absence of complexity such as deductions. Older taxpayers, on the other hand, favor the old regime because it fits their saving mindset and long-term financial rewards.

11. Chopra (2024) Chopra examines how the new tax regime has affected investment behavior. The disallowance of deductions has resulted in lower investments in tax-saving schemes such as Public Provident Fund (PPF) and insurance policies. The study suggests restoring selective deductions for encouraging long-term investments without making the process of filing taxes more complicated.

12. Shah (2024) Shah touches upon prospective future tax reform by suggesting a hybrid structure combining lowered taxation with critical allowances. Such an action will ensure ease in filling taxes along with promotion of saving and investing to support the citizens as well as fiscal stability.

13. Patil (2024) Patil discusses whether India's tax structures are equipped to handle income disparity. The results indicate that the old system benefits those who have high savings since they get deductions. Conversely, the new system works in favor of those without deductions since it is less complex for low-income earners.

14. Ramesh (2024) Ramesh assesses the impact of the new tax policies on small businesses. Although simplified tax systems lower compliance costs and administrative expenses, the elimination of deductions inhibits business owners who utilized these practices for financial management and expansion.

15. Agarwal & Tiwari (2024) Agarwal and Tiwari discuss financial planning under the dual-tax regime. Financial planners advise clients according to their incomes; the wealthy tend to gain from the old regime through deductions, and those with uncomplicated finances like the new regime. The authors suggest enhancing financial literacy to enable taxpayers to make well-informed decisions.

Objectives of the Study

- To analyse and compare the old and new tax regimes on the basis of design, tax slabs, exemptions, deductions, compliance ease, and administrative efficiency.
- To describe how the incidence of taxation varies across income groups and how it affects disposable income, savings, and financial welfare.
- To analyse and compare how the two tax regimes affect national revenue, sustainability, and individual financial behavior (planning, investment, saving, and consumption).
- To assess each system's capacity to foster wealth equality, with special attention to middle- and low-income families and suggesting changes for more balance.

III. RESEARCH METHODOLOGY

The research utilizes a **mixed-methods approach**, that combines **quantitative** and **qualitative analyses** to provide a thorough and balanced assessment of the two tax regimes. By correlating numeric data with contextual information, the method gives a holistic picture of the economic and practical effects of the tax systems.

Quantitative Analysis

The **quantitative study** aims to estimate the monetary impacts of the old and new tax systems on stakeholders, including business entities and individuals. Numerical data will be generated by the analysis to allow for straightforward comparison between the two systems.

- **Statistical Comparison:** There will be a thorough analysis of government reports, official tax returns, and economic statistics to measure differences in tax burdens and total revenue impact. Fundamental indicators like the **effective tax rate, tax burden,** and **revenue accruals** will be computed for various income brackets and economic sectors under both taxation regimes.

- **Data Analysis:** Regression analysis and data modelling techniques that are advanced in nature are being employed to look for patterns, trends, and possible discrepancies between both regimes. This will ascertain the impact of the transition from the former to the latter tax regime on taxpayers from different income groups as well as its general impact on the national economy.
- **Qualitative Analysis**
  While the quantitative method provides information regarding the numeric effect of tax regimes, the **qualitative analysis** puts these findings into context. It investigates the intent, structure, and real-world implications of the tax reforms by examining policy reports, expert views, and actual case studies.
- **Policy Review:** A detailed examination of **government tax policy, budget reports,** and **expert analysis** will be conducted to determine the motive behind the tax reforms. This involves analyzing the success of the reforms in streamlining the tax system, spurring economic growth, ensuring fairness, and enhancing taxpayer compliance. Particular attention will be given to the long-term objectives of the new tax system, including encouraging greater savings, stimulating investments, and raising overall economic fairness.
- **Case Studies:** Thorough case studies of a diverse array of stakeholders including salaried individuals, traders, and investors will be prepared to get the real-world impact of the reforms on tax more clearly. Such case studies would target those groups or individuals which are likely to be hit hard by the shifts in the structure of taxation so that one understands how various pockets of society approach and respond towards the new pattern of taxation. For instance, the effect on high-income individuals and their tax deduction and exemption decision-making will be contrasted with that of low-to-middle-income families. Likewise, small business owners will be interviewed to assess the simplicity of compliance and alterations in their tax burden.

IV. DATA ANALYSIS

Comparison between Old and New Tax Regimes

Annual Income (₹)	**Old Tax Regime (₹) (With Deductions)**	**New Tax Regime (₹) (Without Deductions)**	**Difference (₹)**	**Best Choice**
5,00,000	0 (after rebate)	0 (after rebate)	0	Neutral
7,00,000	23,400	0 (rebate u/s 87A)	23,400 saved in new regime	New Regime
10,00,000	66,040	54,600	11,440 saved in new regime	New Regime
12,50,000	1,17,000	1,04,000	13,000 saved in new regime	New Regime
15,00,000	1,95,000	1,56,000	39,000 saved in new regime	New Regime
20,00,000	3,51,000	3,12,000	39,000 saved in new regime	New Regime
25,00,000	5,46,000	5,20,000	26,000 saved in new regime	New Regime
30,00,000	7,41,000	7,28,000	13,000 saved in new regime	New Regime
50,00,000	15,72,000	15,60,000	12,000 saved in new regime	New Regime
1,00,00,000	37,12,500	37,02,000	10,500 saved in new regime	New Regime
Annual Income (₹)	Old Tax Regime (₹) (With Deductions)	New Tax Regime (₹) (Without Deductions)	Difference (₹)	Best Choice
5,00,000	0 (after rebate)	0 (after rebate)	0	Neutral
7,00,000	23,400	0 (rebate u/s 87A)	23,400 saved in new regime	New Regime

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- Under the Old Regime, deductions of ₹1.5 lakh (80C), ₹50,000 (standard deduction), and ₹25,000 (other deductions) are taken into account.
- The New Regime does not permit most deductions but provides reduced tax rates.

Descriptive statistics

Metric	Annual Income (₹)	Old Tax Regime (₹)	New Tax Regime (₹)	Difference (₹)
Count	10	10	10	10
Mean	₹27,45,000	₹7,32,394	₹7,13,660	₹18,734
Std. Dev.	₹28,76,191	₹11,50,693	₹11,53,794	₹12,819
Min	₹5,00,000	₹0	₹0	₹0
25% Percentile	₹10,62,500	₹78,780	₹66,950	₹11,580
Median (50%)	₹17,50,000	₹2,73,000	₹2,34,000	₹13,000
75% Percentile	₹28,75,000	₹6,92,250	₹6,76,000	₹25,350
Max	₹1,00,00,000	₹37,12,500	₹37,02,000	₹39,000

Interpretation of Results

The descriptive statistics show evident patterns in the contrast between the old and new tax regimes across different income groups. On average, people in this dataset make ₹27.45 lakhs per year, with the old regime providing a mean tax liability of ₹7.32 lakhs, which is marginally higher than the ₹7.14 lakhs from the new regime. This translates to an average tax saving of ₹18,734 while choosing the new regime. The median level of income is ₹17.5 lakhs, where the average tax saving is about ₹13,000—meaning that middle to upper-middle class income earners are likely to gain modestly under the new system. The standard deviations are very high for both income and tax values, indicating a large spread in earnings and tax payments. Interestingly, the minimum tax for both regimes is zero at the level of ₹5 lakh income, where the rebate under Section 87A levels both regimes. The peak tax saving reported is ₹39,000 at incomes of ₹15 lakh and ₹20 lakh, indicating that the new regime provides the greatest monetary benefit in these levels. As a whole, descriptive statistics corroborate the assertion that the new taxation regime generates equal savings in all income ranges with the majority being in middle- and higher-income levels but largely favouring non-deposit-heavy taxpayers.

Regression Analysis

Parameter	**Value**
Dependent Variable	Tax Saved (₹)
Independent Variable	Annual Income (₹)
Regression Equation	Tax Saved = -0.00087 × Income + 21,118.64
Slope (Coefficient)	-0.00087
Intercept	₹21,118.64
R^2 (R-squared)	0.038 (Very weak correlation)

Hypotheses
Null Hypothesis: There is no linear relationship between annual income and tax saved.
Alternative Hypothesis: There is a linear relationship between annual income and tax saved.

Interpretation of Results
The regression analysis investigates the relationship between tax saved and income year-by-year between the old and new tax regimes. The regression equation Tax Saved = -0.00087 × Income + 21,118.64 reveals an extremely weak negative correlation between income and tax saved. This implies that tax savings under the new regime reduce very slightly as income rises. Yet, the R^2 value of 0.038 shows that only 3.8% of tax savings variation is explained by income, suggesting that income is not a good indicator for tax benefits. The hypothesis test aimed to identify if a significant linear relationship exists. Given that we have so low an R^2 with an insignificant slope, we would most probably accept the null hypothesis and arrive at the conclusion that there exists no significant linear association

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between income received annually and tax saved. It suggests other considerations such as tax deductions, exemptions, or special slab benefits would be a greater determinant for tax savings than just income.

Key findings and recommendations

The comparison of the old and new tax regimes at various income levels indicates that the new regime always leads to either an equal or lower tax burden. The people with incomes between ₹15 lakh and ₹20 lakh see the greatest absolute gain of ₹39,000 under the new regime, so it is particularly appealing for middle to upper-middle-income groups. The overall tax benefit at every level of income is ₹18,734, and even high-income earners (say, ₹1 crore) stand to gain marginally from the new regime. At the ₹5 lakh level of income, both regimes are zero-tax paying due to the Section 87A rebate, making it a point of indifference. The regression indicates a very poor negative correlation ($R^2 = 0.038$) between tax savings and income, so tax savings rise little with income. This implies that the advantage of the new regime is quite uniform and doesn't change much with income. On balance, the new tax system favours taxpayers who do not rely on deductions and like a low-rate, simplified tax system.

Based on the findings, individuals who do not fully utilize deductions under sections like 80C, 80D, or home loan interest should consider opting for the new tax regime, as it generally provides better savings and ease of filing. On the other hand, taxpayers who invest heavily in tax-saving instruments and claim maximum deductions may continue to benefit more from the old regime. For those in the ₹10 lakh to ₹20 lakh income range, especially with minimal deductions, the new regime emerges as the more favourable choice. It is advisable for all taxpayers to perform a year-by-year comparison using online tax calculators to determine which regime suits their financial situation best. Additionally, employers are encouraged to educate employees about both regimes and provide tools or resources to help them make informed decisions during the tax declaration and filing process.

V. CONCLUSION

The shift from a deduction-laden to a simplified regime of taxation is a seminal change in the fiscal structure of India. This comparative framework brings to the forefront the subtle trade-offs between the old and the new system. Although the latter provides reduced tax rates and uncomplicated compliance, it loses incentives that traditionally pushed savings and long-term financial planning. The results indicate that while the new regime grants moderate but uniform tax relief—particularly to middle and upper-middle income earners who do not avail themselves of deductions—the old regime continues to favor those who make strategic investments in tax-saving devices.

The research highlights that taxpayer gain under either regime relies significantly on personal financial conduct, literacy, and planning. With a tenuous relationship between earnings and tax savings, the distinction between regimes has to be individualized and not generalized. In addition, although the new tax regime enhances transparency as well as administration efficiency, it poses significant questions regarding shrinking household saving rates as well as the overall long-term viability of public revenue.

To attain a fairer and better tax policy, a mixed strategy might be called for—albeit one where simplicity is achieved alongside targeted incentives to maintain financial sense among people. Policymakers need to prioritize enhanced financial literacy, the customization of tax policy towards inclusivity, and the nation's long-term fiscal well-being. As India refines its taxation system further, economic growth needs to be kept in balance with fairness and taxpayers' empowerment for a healthy and resilient economy.

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